

The World is not a Commodity

By Harald Schumann



THIS MIGHT SOUND a harsh judgement, yet Infineon is no exception in the world of multinational companies. Unemployment, income inequality, tax evasion, mounting economic uncertainty – these are the messages currently coming out of the globalized economy. Yet it was all supposed to be very different: globalization was an “opportunity to promote economic growth with open markets, use resources more efficiently, and im-

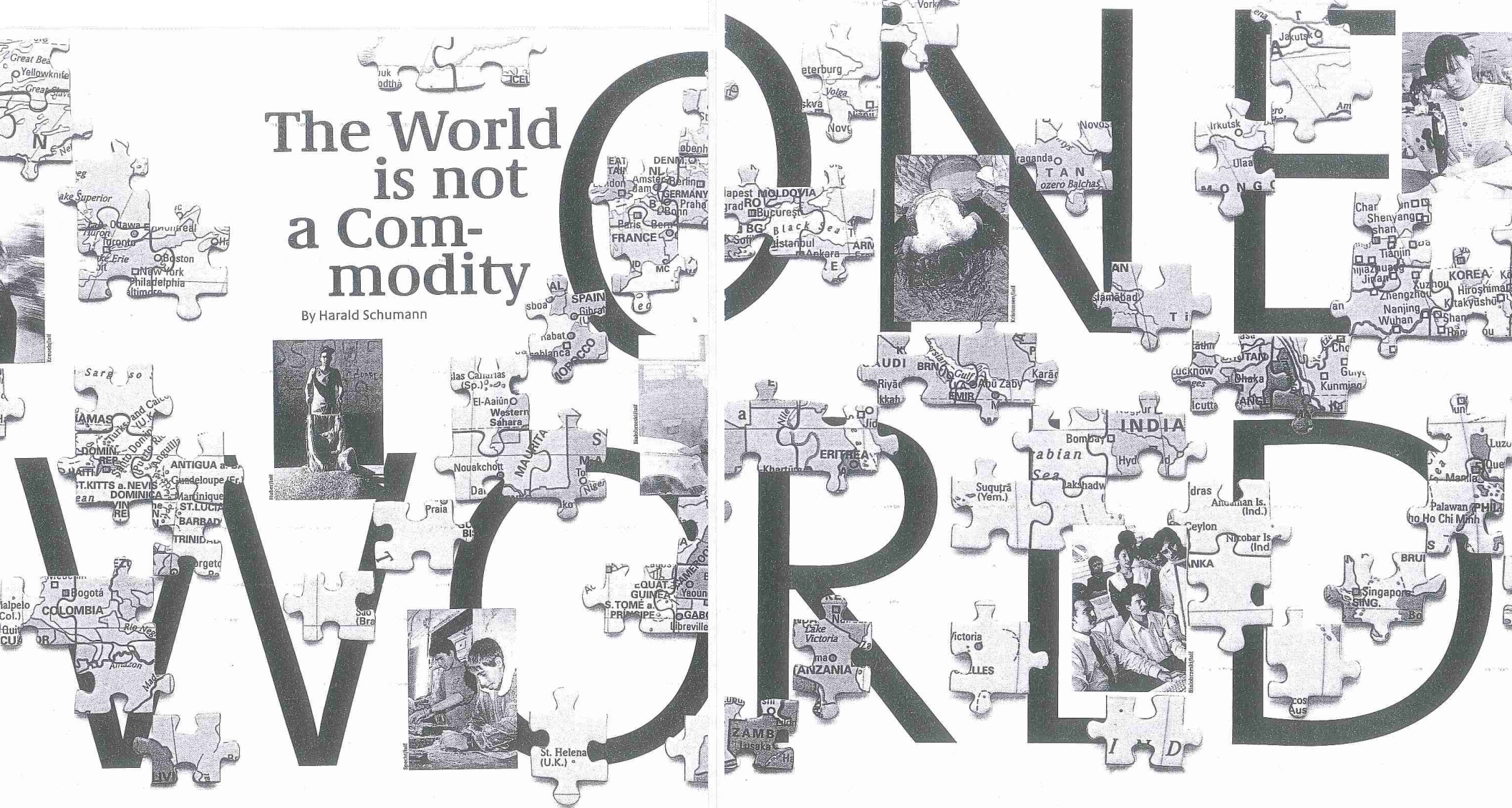
prove people's living conditions and welfare.” At least that was how Rolf Breuer, former chief executive of Deutsche Bank, had formulated the employers’ credo.

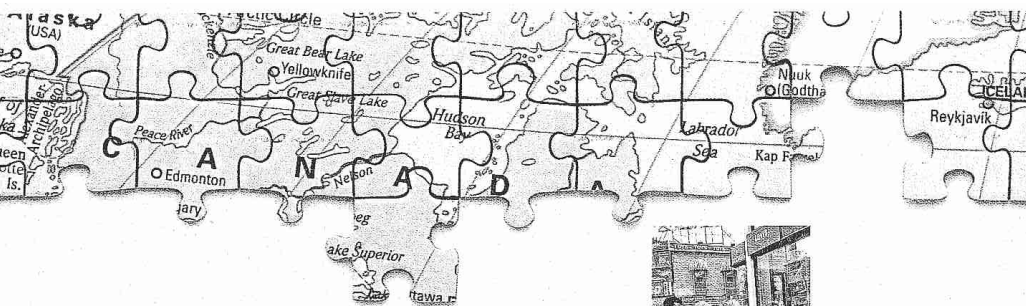
proves that the transfer of capital and technology can contribute to development – on condition that governments retain the power to control the process in their own interests.

YET THE ENORMOUS potential of globalization is in danger of being lost, because governments in the economically strong nations are not shaping the process of global integration in such a way

that the benefits of the global division of labour really do lead to economic success and rising prosperity for all. True, in 2000 the value of all internationally traded goods and services accounted for over a quarter of total world output, compared to only 10 percent in 1970. However, the expansion of trade has gone hand-in-hand with a drastic slowing of real economic progress. Average per capita income worldwide rose by 83 per-

cent.





cent between 1960 and 1980; in the two subsequent decades the increase fell to 33 percent. This slowdown in growth hit the developing countries particularly hard. In Latin America, where per capita income had risen 75 percent between 1960 and 1980, the next twenty years brought only six percent. And in sub-Saharan Africa, economic output has actually fallen by 15 percent since 1980, having grown by over a third over the two previous decades.

It is no coincidence that protests primarily target the flaws in the world's system of financial markets and its institutions. This applies above all to the International Monetary Fund (IMF), whose majority owners in the United States and Europe have been imposing their own agendas for two decades. Organizations like the "attac" network are therefore calling, among other things, for a fundamental reform in which the shares and voting rights at the IMF are redistributed between north and south in such a way that, unlike today, the governments of the USA and Europe can no longer use the IMF to force the liberalization of the capital markets on all dependent countries. Another demand is that the powerful industrialized nations should undertake to restrict the fluctuation of their exchange rates to within specific target zones in order to protect the system more effectively from currency shocks.

Preventing tax evasion

The liberalization of the capital market has led to another blemish, apart from instability: the so-called offshore financial centres – all the small countries that help companies and wealthy individuals to evade taxes. An IMF working group

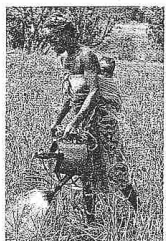


counted 64 such places where capital can be posted pro forma in such a way that the authorities in the owners' home countries never get to know about any yields. Official data alone indicate that these grey areas of capital contain about five trillion US

dollars, half the amount of all officially measured foreign deposits. Drying out such tax oases and establishing a global framework law on a minimum level of taxation are therefore a central component of reforms needed to stabilize the world economy. If organized tax injustice could at least be stopped at this end of the system, then politics would at last have a lever with which to tackle another central challenge of the globalized economy – the growing inequality in the distribution of income. The gap between poor and rich has never been wider: in 1960 the average per capita income of the richest fifth of mankind was about 30 times that of the poorest 20 percent. Today the figure is 78 times.

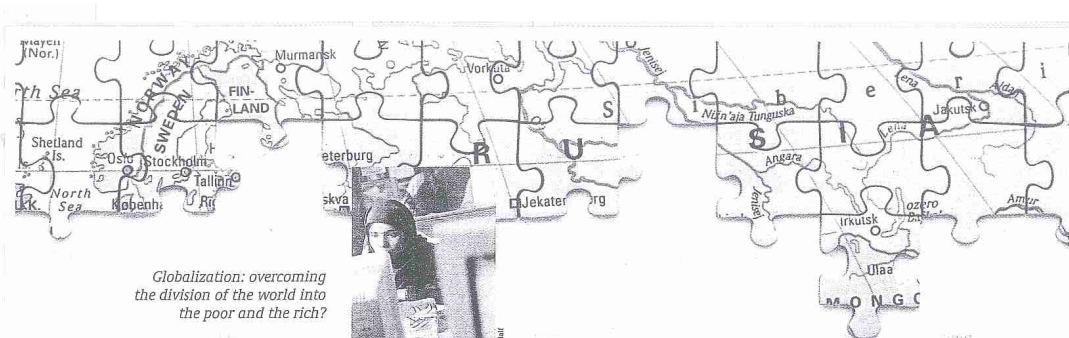
Placing obligations on investors

The only developing countries that have really been successful up to now have been those that have resisted the widespread formulas of turbo-capitalism. There is no doubt that there would be far more poor people in South Korea, Malaysia or Viet Nam today if they had not started producing for the world market. The same applies to China and India. However, governments in these countries have themselves determined the conditions of their integration into the world market, so that they are not just extensions of northern companies' production lines. China, Malaysia and South Korea, for example, have



attached tough conditions on investment by foreign corporations for many decades. Either investors had to allow domestic companies to take part in their investments, enabling them to acquire the necessary know-how and gain access to global distribution channels; or else they had to guarantee, as a quid pro quo for the profits from low labour costs, that a fixed percentage of the value added was actually produced within the country, so that the investment also stimulated domestic development beyond the factory gates.

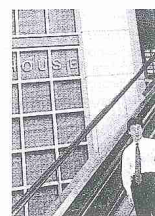
AT THE SAME time the General Agreement on Tariffs and Trade, which was valid until 1995, guaranteed the developing countries the privilege of using tariffs to protect their domestic producers from competition from the stronger industrialized countries. The successful Asian states made extensive use of this for as long as they could. Yet it is precisely this road to development that is being blocked today for the countries of the south – not least assisted by the present attitude of the World Trade Organization (WTO). For, desirable as a regulation of world trade based on law might be, this mission has had precisely the opposite effect in practice. While the developing countries have been lowering their tariffs – by half on average – and rolling out the red carpet to foreign investors, the OECD states have broken their promises by continuing to raise taxes on processed goods from developing countries – at tariffs that are four times as high on average as for trade among themselves. Every year



Globalization: overcoming the division of the world into the poor and the rich?

this costs the countries of the south an estimated 134 billion euros in export earnings, which is more than double the amount of development aid provided worldwide. In order to make sure that the global division of labour really benefits all, the WTO policy ought therefore to be turned back onto its feet: with the rich countries opening their markets, and the developing countries protecting themselves until they are competitive – in other words exactly what all successful industrialized countries once did.

MEANWHILE the reorganization of the world economy has also triggered a mechanism of inequality in the industrialized nations. With amazing uniformity throughout all industrialized countries the gap is widening between wages on the one hand and corporate and capital incomes on the other. Here is an example: whereas in the early 1960s top US managers earned about 40 times as much as their workers, today the factor is 531. At the same time almost a third of employees are working for wages that



are below the poverty level, and a quarter of the population do not have adequate health insurance. Simultaneously there has been a dramatic upheaval in the organization of work. Global integration and modern information technology are reducing the demand for traditional salaried employees. They are being replaced by part-time workers, staff with temporary employment contracts, second jobbers and people who are self-employed against their will. Already almost a third of all em-



ployees in Germany have temporary contracts or work either part-time, as loan workers, or on a fee basis. At the same time workers and trade unions are increasingly unable to resist the worsening of working conditions or to win wage increases.

IN THIS WAY, globalized progress is gradually turning into quite the opposite; in its present form, globalization is achieving nothing more than a program geared to redistribute income from the bottom of the scale to the top. The central task of democratic policy should therefore be to alter fiscal and economic policy in such a way that it counteracts mounting inequality and insecurity in a just manner. There is nothing wrong with setting up industrial companies in low-wage countries. At the same time, however, those who gain from this development should be made responsible for ensuring that it does not lead to the exclusion of the losers. Countries and their governments should make sufficient funds available to offer these people qualified advanced training and a guaranteed income, so that they can re-enter the system somewhere else at a higher level of productivity. Yet this is precisely what does not happen at present, because the "winners" do not pay, and governments lack the money – one reason being that the major corporations are paying less and less tax. In the mid-90s throughout the European Union, wage and salary earners paid an average of 13 percent more in taxes than a decade earlier; joint-stock companies, by contrast, paid almost 40 percent less, a trend that has further intensified since that time. "A fiscal redistribution is taking place from the top of the scale to the bottom," says Prof. Dr Ernst Ulrich von Weizsäcker, chairman of the Bundestag

Commission of Inquiry on Globalization.

THE "REVOLUTION OF CAPITAL," as the CEO of a major German corporation has called the new power constellation, involves risks even for countries that consider themselves to be on the winning side. For even democratically elected governments can no longer efficiently counteract the growing inequality. According to the German-British sociologist Lord Dahrendorf, this is not "beneficial" for democracy; he warns that we are entering an "authoritarian century." Even Steven Roach, chief economist at Morgan Stanley, warns of the growing "moral dilemma" of inequality. Perhaps it is "only a matter of time before there is a politically led backlash." Neither corporation bosses nor democratic politicians have an interest in such scenarios. The growing number of prominent dissidents among the economic establishment who are turning against the current, short-sighted form of globalization, indicates that cracks are very definitely beginning to appear in the neo-liberal faith.

THE NEW SOCIAL movements, too, regard it as their central task to channel these doubts and to transform them into support for politicians seeking reform. Breaking the power base of the world markets and implementing the necessary reforms is an enormous enterprise. Yet there are an astonishingly large number of people who are determined to tackle this project.

Harald Schumann, editor at "Spiegel" magazine, coauthored the book "attac – what do the globalization critics want?" which expresses the concerns and fears of globalization-critical civic society.